

A BEGINNER'S GUIDE TO RUNNING AN S-CORP

GETTING STARTED

Now that you've elected for the Federal Government to treat your business as an S-Corporation, some things will stay the same as how they've worked before, and some things that will be different.

Why S-Corp?

[Follow this link](#) to learn more about this unique tax election.

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IT'S TIME TO OPEN A BUSINESS BANK ACCOUNT

One of the compliance requirements to be an S-Corp is that you treat your business and personal finances entirely separate. Because of this, you will need a separate business banking account and personal banking account, as well as separate credit cards. When finances are mixed, this is called commingling. Commingling finances can lead to serious consequences such as:

- Dissolution of your S-Corp, which can date back to the beginning of your company, disallowing all the returns filed for it, and forcing your personal returns to be amended to include Schedule C's. Tax implications (with penalties) of an event like this will be severe.
- Commingling funds also means that an audit by Federal or state authorities is fair game for not just your business taxes but your personal returns as well. The consequences can be devastating, especially when avoidable!

YOU ARE WEARING TWO HATS NOW



AS AN EMPLOYEE

- You will receive a salary and a W2.
- You will need an expense reimbursement policy to submit any charges that you paid for personally that were intended for the business so the business can reimburse you. If you accidentally pay for a business expense with your personal funds, this will legitimize the repayment in the eyes of the IRS.
- If you primarily work from home, you can take advantage of Business Use of Home deductions. [Click this link to learn more.](#)



AS AN EMPLOYER

- You will be the "officer" of the S-Corporation, and, therefore, you will be able to withdraw funds directly from your business account as "equity distributions." This is a non-taxable event in most cases because you will be paying taxes on both the W2 income from the company, as well as the net income that eventually passes through to your personal taxes.
- You can deduct business miles driven at the yearly IRS mileage rate and reimburse yourself as an employee for those incurred costs. We recommend tracking this with the [MileIQ](#) (available on iOS and Android).
- You and your personal assets will be protected by the entity from legal action in most cases with regard to your business activities.



SOME THINGS NEVER CHANGE

You are still only one person. As the sole member of your company, you will be the voice and the face of the business, and your clients will still deal with you as the point of contact. They will just need to pay to your business name and business account, instead of you personally.

You can still pull money from your business account as a distribution whenever you need it, although we recommend running it via your payroll whenever possible.

You still need to develop your business to succeed. Even though you have an S-Corporation, your ability to acquire, retain, and grow your business will be the ultimate key to being profitable or not.

OPENING BANK ACCOUNTS

The EIN (Employer Identification Number), EIN Verification Letter, and Articles of Organization are the most important documents you need to open a business checking account.

Our preferred banking partners are Wells Fargo, Bank of America, Chase, and [Relay Bank](#). We can use almost any bank you'd like, but these three integrate best with our system and will automate much of the work on your behalf, saving you more valuable time.

As soon as you open the account, there are a couple of steps necessary to effect the separation from business and personal:

1. Instruct your customers and or clients to send payments for your invoices to the new business bank account.
2. Move any business-facing expenses to be paid out of the new account; [see this article](#) for a deeper understanding of what can be considered business vs personal expenses.
3. Grant a “view-only” accountant access login for the bank account to us; this will enable us to gather the necessary compliance documents like bank statements, check, and deposit copies that we are required to have on file to back up our entries in the accounting software. The email to give access to is admin@formationscorp.com. You should only give us access to statements, activity downloads, and documents, and NOT any ability for us to move money or make payments. Contact us if you need assistance to set this up; most of the time, you need to talk to your banker directly, but certain banks like Wells Fargo and Chase will allow you to set it up through your online access.
4. If you would like to go with Relay bank for your new business account, we can set it up on your behalf using the documents you've already provided that have been sent to us from federal and state authorities. If we have the view-only access, we'll set up the connection to our accounting, payroll, and compliance software; if that access is not available or forthcoming, then we will need a quick call to set up the connections using your online access.
5. We recommend you also open a business credit card; most banks will issue one to even a new business provided the personal guarantee of the major shareholder (in other words: you).
A business credit card will allow you to better manage cash flow as well as build credit for your company and yourself. We will also need access to this card, similar to bank access.
6. When we have access to the bank squared away, we will finish the setup of our accounting, payroll, and compliance software.

WELCOME TO PAYROLL



We should not need much from you in this process as we have most of the information necessary to finish opening all the accounts. Once we are done with that process, we will need a quick phone call with you to e-sign a couple of documents that will empower the payroll system to file returns and process tax payments for your S-Corp without needing you to do anything other than approve payroll.



We set our customers' payroll frequency by default to monthly; you, of course, have the option to run it more often or less depending on your income needs. We can discuss this on our payroll finalization call to determine what's best for your situation.



A few days before the payroll is scheduled, we will reach out via email to let you know our recommended gross wages, the total taxes that will be paid on those wages, and the total cash requirements of the payroll (aka the actual money that will leave your business account and where it will go).



You can have the net check deposited directly into your personal account or write yourself that check manually. It mimics the payroll you would have with a typical W2 job and allows our system to automate the accounting side of things more efficiently.



Once you approve the payroll amounts, we will schedule payroll to process on the correct date (either the last of the month or whatever date you choose) and provide you a Payroll Summary for your reference. We keep copies of these available as well so if you lose it, just let us know.



All payroll filings necessary, be it state or federal, will be automatically filed every quarter and year. We will also provide you with a W2 each year to take to your tax preparer (or prepare your own personal taxes with).



DEFINING YOUR REASONABLE WAGE

(AND MAXIMUM TAX SAVINGS)

Each month/quarter we will assess the current payroll totals for the year for adherence to acceptable minimum payroll standards for S-Corps based on industry averages for [reasonable wages](#).

Your reasonable compensation will be a portion of your net income that's determined by a number of factors, including your state, industry, and experience.

There may be some situations where we would tell you to take more payroll to take advantage of better benefits and retirement that will help maximize your tax savings in the S-Corp.

We are also cognizant of cash flow needs, so if it's necessary to preserve some cash balances for a while, we can suspend or lower payroll to accommodate those needs.

WE CAN'T PREDICT YOUR FUTURE, BUT WE CAN PREDICT YOUR TAXES



Your biggest expense as a self-employed professional is your taxes. It's time the self-employed were able to manage them—predictably. Formations is a friendly yet powerful dashboard, designed specifically for the self-employed to maximize their tax savings, reduce annual liability, and prevent surprises.

We all know that the best tax approach is proactive—taxes should be managed year-round. With Formations, you claim deductions, report on income and expenses, pay your tax estimates and report on tax-changing events whenever they occur so that when filing season comes, you can file on time and not be surprised by a large tax bill.

Have a question or concern? Got a scary letter from the IRS? We're here to help with a dedicated team of tax, accounting, bookkeeping, and business experts at your disposal, so you never go to sleep with a tax concern.

[**VISIT OUR WEBSITE**](#)



NEVER OVERPAY ON TAXES AGAIN

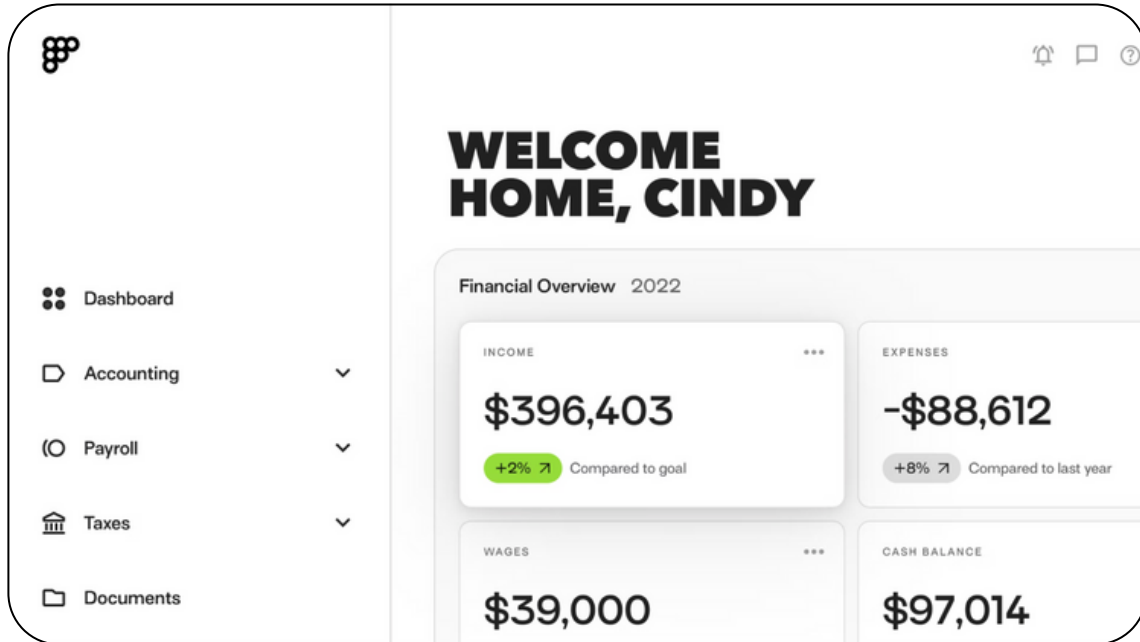
BEING AN S-CORP HAS ITS PERKS

Health Insurance: By paying for health insurance through the company as an employee, you can fully deduct the cost of premiums (but not out-of-pocket expenses) as a business expense. As an officer of the company, it will show up as income on your W2, but the tax savings will remain because you will have prepaid the necessary taxes through payroll.

401(k) and SEP IRA: This is the S-Corporation structure's real "magic bullet". When opened under the company name, specific retirement plans will enable you to contribute a portion of your W2 salary to your retirement plan AND allow the company (you) to match those contributions as a business expense. This has the effect of taking income you would normally pay self-employment taxes on and putting it in a tax-deferred retirement account. [More on retirement options for the self-employed here.](#)

EXAMPLE:

You make \$200k in net income in a given year. You pay yourself \$100k in wages, which is then reduced to about \$75k net income (after payroll taxes). You then put \$25,000 into your retirement account: half from you as the employee and half from the business as a match. You've effectively reduced your taxable income from the business by over \$150,000!



FORMATIONS IS HERE TO HELP

SAVE TIME + MONEY

Focus on what you do best, not time-consuming back-office tasks, and let Formations take care of the rest.

GAIN VISIBILITY

Gain valuable insights into the financials of your business so you can make data-driven decisions.

PREVENT SURPRISES

Nobody likes surprises. Our platform makes it easy to stay on top of your tax liabilities and responsibilities.

ENJOY PEACE OF MIND

With Formations, your taxes are handled by the experts; no more worrying about cash flow, compliance, or deadlines.

QUESTIONS?

[VISIT OUR HELP CENTER](#)

